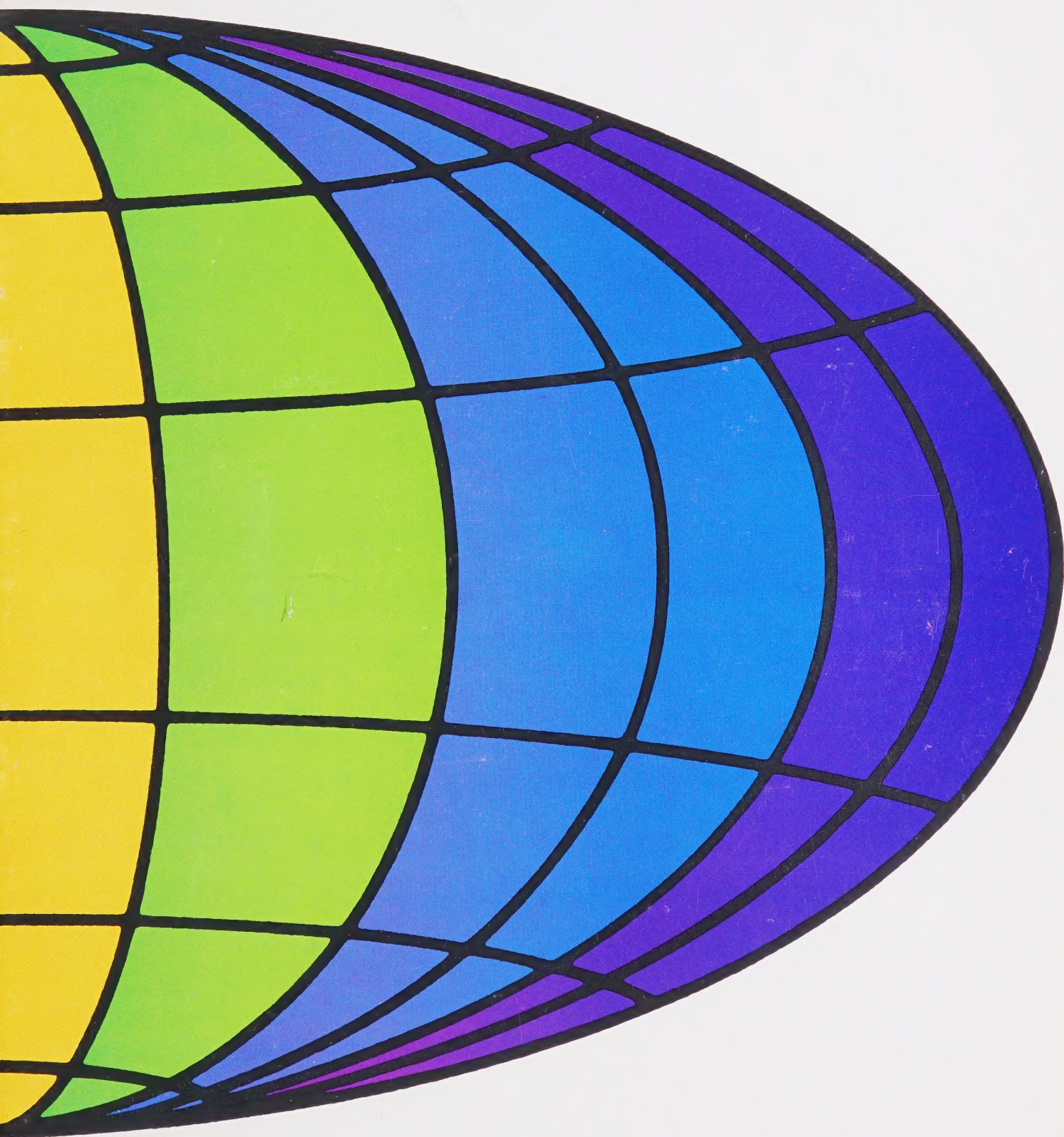



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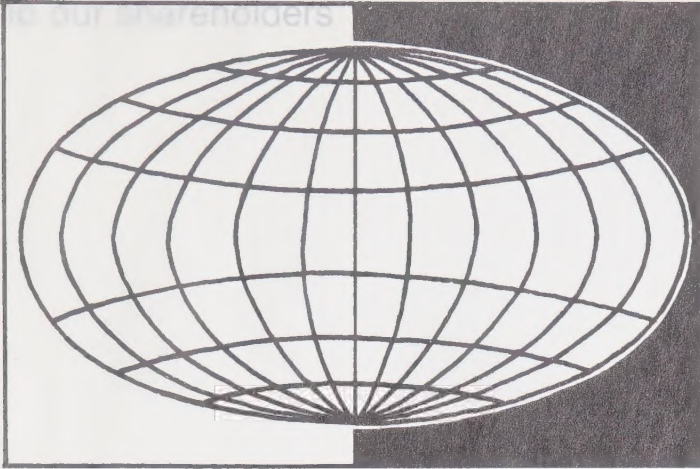
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Tonecraft Limited/Annual Report, 1971

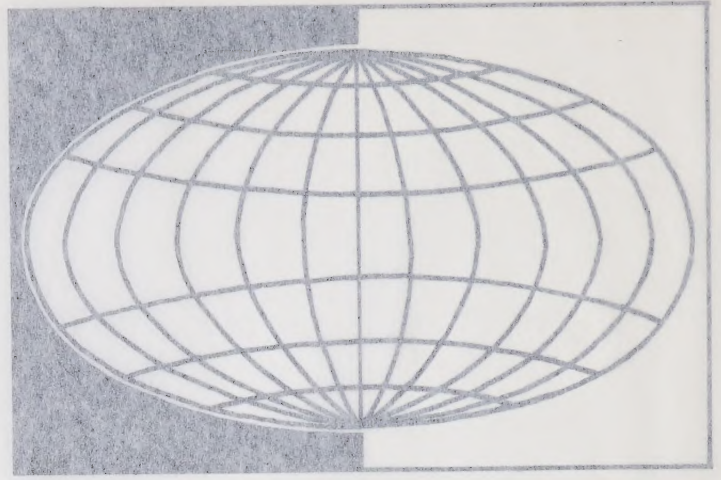
Once again it's time to report on our year's activities. 1971 was an exciting time for us because it marked the beginning of full operation under new plans and methods announced by your company last year.

As you will see, these new procedures are already showing up on the profit side of the ledger with a 10.4% sales increase for 1971. Incidentally this is higher than the year's national increase for the paint industry according to records from Statistics Canada. You may recall such changes as phasing out of the name Tonecraft from product identification, the re-design and unification of all our paint product labeling, the instigation of a product diversification plan and so on. At this time we are pleased to record the first year results of these sweeping changes.

After receiving your approval to change the company name to Tonecraft Limited, we were able to fully accommodate our product diversification plan. Today, all our stores sell a wide variety of home decorating items ranging from mirrors and pictures to floor tiles and rugs. As we have so often stated, paint is our main product but it's simply good business to serve our customers by supplying many of the other items needed when a home decorating job is in progress.

There has been a gratifying response to our line of unpainted furniture, so we'll be expanding our stock of these items in the coming year. Naturally, we hold a vested interest in merchandising a range of unpainted products, since every piece of furniture must be finished and a customer usually buys all the materials he needs at one time while he is in our store. In fact, surveys indicate the average sale of finishing products when furniture is purchased, amounts to ten dollars.

During the year we completed the packaging changeover of all our paint products to newly designed Color Your World labels. This unified the merchandise of all of our divisions and subsidiaries. As promised, we reorganized some thirty different labels and label sizes, reducing the variations to three sizes in three basic groups. Colorful interlocking circles printed on every label are keyed to each of the three product



Toncraft Limited \Annual Report, 1971

To our shareholders

Once again it's time to report on our year's activities. 1971 was an exciting time for us because it marked the beginning of full operation under new plans and methods announced by your company last year.

As you will see, these new procedures are already showing up on the profit side of the ledger with a 10.4% sales increase for 1971. Incidentally this is higher than the year's national increase for the paint industry according to records from Statistics Canada. You may recall such changes as phasing out of the name Tonecraft from product identification, the re-design and unification of all our paint product labelling, the instigation of a product diversification plan and so on. At this time we are pleased to record the first year results of these sweeping changes.

After receiving your approval to change the company name to Tonecraft Limited, we were able to fully accommodate our product diversification plan. Today, all our stores sell a wide variety of home decorating items ranging from mirrors and pictures to floor tiles and rugs. As we have so often stated, paint is our main product but it's simply good business to serve our customers by supplying many of the other items needed when a home decorating job is in progress.

There has been a gratifying response to our line of unpainted furniture, so we'll be expanding our stock of these items in the coming year. Naturally, we hold a vested interest in merchandising a range of unpainted products, since every piece of furniture must be finished and a customer usually buys all the materials he needs at one time, while he is in our store. In fact, surveys indicate the average sale of finishing products, when furniture is purchased, amounts to ten dollars.

During the year we completed the packaging changeover of all our paint products to newly designed Color Your World labels. This unified the merchandise of all of our divisions and subsidiaries. As promised, we reorganized some thirty different labels and label sizes, reducing the variations to three sizes in three basic groups. Colorful interlocking circles printed on every label are keyed to each of the three product



categories. A red/blue/yellow combination indicates interior paint, green/turquoise/orange marks exterior paint and a series of brown tones stands for stains, varnishes and urethanes. It's easy to understand the considerable dollar savings resulting from this new identification system. We are well pleased with the results.

At this time last year we announced the installation, at Toronto, of a unique automated manufacturing system developed by your company.

During 1971 this system was successfully put into total operation. Perhaps this is the single most significant manufacturing improvement your company has ever made. One year ago we predicted vastly improved capabilities with substantial cost and labour savings. That prediction has become a reality. There has been a capacity increase exceeding 200% and a reduction of labour costs per finished unit. Instead of operating on the old-fashioned batch method of production we now use a continuous run system which keeps our inventory completely up-to-the-minute. So far we've come nowhere near the factory's potential output. To explain the method more simply, we filled every order on time, as required. The factory is in continual operation, whether filling production lines or transferring to holding tanks where the paint can be tinted instantly to whatever color is needed. We have the capability to produce one thousand gallons of a desired paint in fifteen minutes. This is the fastest possible service and is especially convenient for unusual items or large wholesale orders.

There is no other system of its kind in Canada and our Toronto plant fills the needs of Color Your World stores from Halifax to Winnipeg with the greatest of ease. It all adds up to greater efficiency, less labour costs, more profit and higher earnings.

We are also very pleased with the performance of our Vancouver plant. It went into production two years ago using the most modern equipment to provide excellent productivity on an efficient basis for the Western market.

At the merchandising level we are continually upgrading existing retail outlets and building new stores. We are creating the Color Your World image in all our stores and



**Our \$12* paint
costs
about \$7.**

*other mfrs' list price, same quality

in this way we have been successful in establishing a high quality, nation-wide merchandising impression. A Color Your World store is instantly recognized wherever the location and this valuable impact must be maintained without deviation. All company stores have gradually been changed to this single concept and more than half of all the stores are now using our Color Your World billboard style store front.

The associate dealer program was successfully started during 1971 and we look forward to further expansion in the ensuing year.

As usual, we had plenty of new store openings. There were four in British Columbia; Kamloops, Prince George, another outlet in Vancouver and one in Coquitlam. In Alberta we had two openings. The first was a combined new store and warehouse in Edmonton and there was a new store opening in Calgary. Ottawa, Burlington and Guelph were added to our Ontario outlets bringing additional newly constructed store space to just over 33,000 square feet.

Now what did all this do to our financial picture? First of all, earnings per share increased by 28c even though store expansion called for an increase in depreciation expenses of some \$90,533.00. At \$11,391,293.00 our sales showed an increase of \$1,074,548.00 to give us a net income after taxes of \$562,057.00 or 31% higher than our last fiscal year.

Finally, retail sales continue to represent a strong portion of the overall gross. This healthy trend is attributed directly to our Color Your World image stores.

What lies ahead? If you can believe the economic analysts we are about to enter a period of sharply rising business prosperity. Certainly at Tonecraft Limited we are expecting a successful year for 1972. This isn't wishful thinking, it's based on solid company research, excellent marketing plans and development of some new and improved paint products.

Most exciting of all the new products is a paint which has been over a year in the planning. This is our new Pli-Tone and it's destined to be the best latex paint on the



market. This color-fast, alkali resistant product has already been produced and will be given a full scale introduction early in 1972. By virtue of the selling slogan alone, "A \$12 paint which costs about \$7", we should make a deep impression on the retail market. But there's more to it than just a slogan, as we must prove that the product equals other manufacturers' top lines selling in the \$12 range. We truly can supply twelve dollar quality for about seven dollars and still make an excellent profit. In fact we do it for \$6.98 to be exact.

The new product also complies with all sections of the Hazardous Products Act. In addition it is non-toxic, lead free and suitable for every room in the house, even the nursery. We fully expect this brand new paint to sweep the market and become one of the best selling products we've ever produced. In conclusion, we're ready to face the challenge of our next fiscal period with an ever-increasing sense of confidence, tempered by solid experience and carefully researched business and production programs.



B. F. Strongman, Director



D. R. Strongman, Director



Tonecraft Limited and Subsidiary Companies

Financial Highlights	Thousands of dollars				
	1971	1970	1969	1968	1967
Sales	\$11,391	\$10,317	\$9,513	\$7,495	\$6,267
Net earnings before taxes	1,122	892	1,056	889	744
Net earnings after taxes	562	429	503	435	365
Earnings per common share	1.20	0.92	1.12	1.05	0.91
Dividends per common share	0.20	0.20	0.20	0.20	0.20
Working capital	1,581	1,192	1,555	698	1,200
Depreciation	317	226	110	72	57
Total assets	9,292	8,364	6,828	4,932	3,039
Shareholders equity	4,001*	4,208	3,453	2,743	2,095
Number of common shares outstanding, year end	471,731	466,004	446,264	412,814	399,114

*After intangible asset write-off (See Consolidated Statement of Retained Earnings)

Consolidated Statement of Earnings

Year ended December 31, 1971 (with comparative figures for 1970)

	Thousands of dollars	
	1971	1970
Sales	\$11,391	\$10,317
Cost of goods sold	6,540	5,586
Gross profit	4,851	4,731
Operating expenses other than interest on non-current liabilities	3,540	3,671
Interest on non-current liabilities	189	168
	3,729	3,839
Income before income taxes	1,122	892
Income taxes current	490	462
deferred	70	1
Net income for the year	562	429
Earnings per common share (dollars)	1.20	0.92

Consolidated Statement of Retained Earnings

Year ended December 31, 1971 (with comparative figures for 1970)

Balance at beginning of year	2,932	2,598
Net income for the year	562	429
	3,494	3,027
Deduct		
Dividends preference shares	2	2
common shares	93	93
	95	95
Intangible Assets Written Off		
Excess of cost of shares over book value at dates of acquiring shares of subsidiaries	532	
Goodwill	142	
	674	
Balance at end of year	\$2,725	\$ 2,932

Consolidated Balance Sheet

December 31, 1971 (Note 1)
(with comparative figures at December 31, 1970)

		Thousands of dollars	
		1971	1970
Current assets	Cash	\$ 55	\$ 38
	Accounts receivable	1,266	1,037
	Income taxes recoverable	—	42
	Inventories (note 2)	2,682	2,155
	Prepaid expenses	52	44
Total current assets		4,055	3,316
Current liabilities	Bank advances, against which book debts have been pledged	1,258	1,190
	Accounts payable and accrued liabilities	932	844
	Income taxes payable	31	—
	Principal due within one year on non-current liabilities	253	90
Total current liabilities		2,474	2,124
Working capital (net current assets)		1,581	1,192
Other assets	Land, buildings and equipment at cost (note 3)	6,193	5,081
	Less accumulated depreciation	1,043	759
		5,150	4,322
	Excess of cost of shares over book value at dates of acquiring shares of subsidiaries	—	532
	Goodwill at cost	—	142
	Deferred expenses less amortization (note 4)	87	52
Excess of assets over current liabilities		6,818	6,240
Non-current liabilities	Term bank loans (note 5)	1,393	650
	Mortgages payable (note 6)	1,415	1,425
	Other loans payable	145	—
		2,953	2,075
	Less principal included in current liabilities	253	90
		2,700	1,985
	Deferred income taxes (note 7)	117	47
		2,817	2,032
Excess of assets over liabilities		4,001	4,208
Shareholders' equity	Capital stock (note 8)		
	Authorized:		
	500,000 common shares without par value		
	Issued:		
	preference shares (9,740 shares in 1970)	—	49
	471,731 common shares (466,004 in 1970)	1,276	1,227
		1,276	1,276
Retained earnings		2,725	2,932
		\$ 4,001	\$4,208

The attached notes form an integral part of these statements

Approved by the Board

B. F. Strongman *D. R. Strongman*

B. F. Strongman, Director

D. R. Strongman, Director

Tonecraft Limited
and Subsidiary Companies

Consolidated Statement of Source and Application of Funds

Year ended December 31, 1971 (with comparative figures for 1970)

		Thousands of dollars	
		1971	1970
Source of funds	Operations:		
	Net income for the year	\$ 562	\$ 429
	Add items not involving a current outlay of funds:		
	Depreciation and amortization	317	226
	Deferred income taxes	70	1
	Loss on disposal of fixed assets	4	3
		953	659
	Mortgage proceeds	31	447
	Term bank loans	743	—
	Other loans	145	—
	Sale of fixed assets	17	1
	Special refundable tax	—	2
		1,889	1,109
Application of funds	Purchase of property at 10 Carson Street		
	Cost		764
	Deduct consideration not involving current funds		
	Company property less applicable mortgages		126
	Mortgage assumed		217
	Common shares		421
			764
	Other fixed asset additions	1,138	1,117
	Deferred expenses	63	64
	Dividends	95	95
	Decrease in non-current portion of liabilities	204	196
		1,500	1,472
Working capital	Increase (decrease) in working capital	389	(363)
	Beginning of year	1,192	1,555
	End of year	\$1,581	\$1,192

Notes to the Consolidated Financial Statements

Year ended December 31, 1971

1. Change of name and basis of consolidation	During 1971 the company changed its name from Tonecraft Paints Limited to Tonecraft Limited. The subsidiaries, all of which are wholly owned are: Geo. C. Henderson Limited Tonecraft (B.C.) Limited (resulting from the amalgamation of Tonecraft Paints (B.C.) Limited and Golden Crown Sales Ltd., in 1971.)	Thousands of dollars		
		1971		1970
2. Inventories	Inventories are valued at the lower of cost and replacement cost.			
	Raw materials	340		219
	Colorants	49		41
	Tonecraft products	1,334		1,209
	Resale merchandise	958		686
		\$2,681		\$2,155
3. Fixed assets		1971		1970
		Cost	Accumulated Depreciation	Net
	Land	1,884		1,688
	Buildings	2,613	247	2,096
	Machinery & Equipment	1,461	653	430
	Other	235	143	108
		\$6,193	1,043	4,322
	Depreciation is calculated on a diminishing balance basis at maximum rates allowed by the Income Tax Act.			
4. Deferred expenses	Deferred expenses include the pre-opening expenses of new stores and the costs related to the extension of the "Color Your World" marketing concept. These expenses are being amortized over a thirty-six month period.			
5. Term bank loans	The term bank loans are demand loans, repayable on specific terms up to 1978. Instalments due within each of the next five years are:			
	1972	\$177,922		
	1973	185,611		
	1974	188,055		
	1975	190,667		
	1976	243,459		

Notes to the Consolidated Financial Statement (continued)

Year ended December 31, 1971

6. Mortgages payable	Balance at end of year.		Thousands of dollars	
	Maturity Date	Rate of Interest	1971	1970
	1973	9¼ to 10%	81	85
	1974	9¼ to 10½ %	569	581
	1975	8 to 11%	328	336
	1976	8%	9	11
	1978	8¼ %	143	147
	1983	8%	30	—
	1988	7¾ to 8%	168	176
	1990	10%	87	89
			<hr/>	<hr/>
			\$1,415	\$1,425
	<hr/>			
	Principal payments due within each of the next 5 years			
	1972	\$ 45,487		
	1973	117,804		
	1974	567,078		
	1975	319,605		
	1976	20,003		
	<hr/>			
7. Income taxes	The company charges earnings with income taxes currently payable and also with income taxes deferred by claiming deferred expenses and capital cost allowances for tax purposes in excess of amortization and depreciation recorded in the accounts. The accumulated total of such income tax deferment is reflected in the balance sheet as "Deferred income taxes"			
	<hr/>			
8. Capital stock	<p>During 1971, the remaining 9,740 authorized and issued 4% redeemable preference shares were converted into 5,727 common shares at the conversion rate of 8½ preference shares to 5 common shares.</p> <p>In 1970, 1,020 preference shares were converted into 600 common shares and in addition, 19,140 common shares were issued as partial consideration for the purchase of the land and buildings at 10 Carson Street, Toronto.</p>			
	<hr/>			
9. Comparative Figure	The 1970 figures have been reclassified on the basis of financial statement presentation adopted for 1971.			
	<hr/>			
10. Other Statutory Information	Depreciation		289	215
	Amortization		28	11
	Remuneration of directors and senior officers		158	119
	<hr/>			

Auditors' Report

To the
Shareholders of
Tonecraft Limited

We have examined the consolidated balance sheet of Tonecraft Limited and subsidiary companies as at December 31, 1971 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we

considered necessary in the circumstances. In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne, Gunn, Helliwell & Christenson
Chartered Accountants

Toronto, Canada, February 1, 1972

Tonecraft Limited
and Subsidiary Companies

Directors

Directors
D. R. Strongman
W. M. Strongman
B. F. Strongman
J. F. McCallum
W. G. Reid
P. D. Wendling

Officers
D. R. Strongman, President
W. M. Strongman, Vice-President
B. F. Strongman, Secretary-Treasurer

Transfer Agent and Registrar
Montreal Trust Company

Auditors
Thorne, Gunn, Helliwell & Christenson

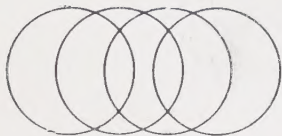
Solicitors
Harries, Houser, Brown & McCallum

Bank
Canadian Imperial Bank of Commerce

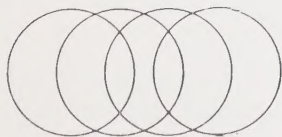
Listing
Toronto Stock Exchange



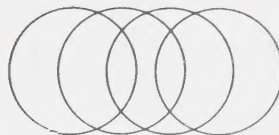
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A DIVISION OF
TONECRAFT LIMITED



**TONECRAFT
LIMITED**



1971
HALF-YEARLY
STATEMENT
TO
SHAREHOLDERS

TONECRAFT LIMITED

1971 HALF-YEARLY REPORT

Your Directors have declared a dividend for the quarter ended June 30th, 1971, of 5¢ per share on the Capital Stock of the Company, payable August 16th, 1971, to shareholders of record July 30, 1971.

Despite a slow start, sales for the first half of 1971 at \$5,259,666 show a gain of \$217,270 or 4.3% over the same period of 1970. Net earnings after income taxes for 1971 were \$303,707 compared with \$299,623, an increase of \$4,084, or 1.4%. Earnings per share (based on 466,004 shares 1971) are 65.2 cents compared with 64.5 cents (based on 465,904 shares for 1970).

Our program of branch store upgrading has continued and during the period eight new stores were opened and six stores closed.

Your Directors are pleased with the above results and anticipate a favourable third quarter.

July 30, 1971
Div. No. 24

B.F. Strongman
Secretary-Treasurer

TONECRAFT LIMITED

& SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

FOR THE SIX MONTHS ENDED JUNE 30, 1971

(With Comparative Figures for 1970)

	1971	1970
Sales	\$5,259,666	\$5,042,396
Cost of Goods Sold	<u>2,531,865</u>	<u>2,613,759</u>
Gross Profit	2,727,801	2,428,637
Operating Expenses	<u>1,885,399</u>	<u>1,647,240</u>
Profit from Operations	842,402	781,397
Provision for Depreciation	141,888	96,599
Remuneration of Directors and Senior Officers	<u>67,792</u>	<u>60,583</u>
Net Operating Profit	632,722	624,215
Provision for Taxes	<u>329,015</u>	<u>324,592</u>
Net Profit for Period	<u>303,707</u>	<u>299,623</u>
No. Shares Outstanding	466,004	465,904
Earnings per share	65.2¢	64.5¢

Note: The 1970 Comparative Figures have been restated to reflect provisions for certain expenses which had not been made previously for interim financial reporting. The effect of the above provisions has been to reduce Net Income for the six months ended June 30th 1970 by \$49,289.

The 1971 figures are unaudited and subject to year-end adjustments.

TONECRAFT LIMITED

& SUBSIDIARY COMPANIES

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

SIX MONTHS ENDED JUNE 30, 1971

(With Comparative Figures for 1970)

SOURCE OF FUNDS:

Operations:	1971	1970*
Net Income for the Period	\$ 303,706	\$ 299,623
Add Items not involving a Current Outlay of Funds:		
Depreciation & Amortization	141,888	96,599
Loss on Sale of Fixed Assets	1,128	---
	<u>446,722</u>	<u>396,222</u>
Long Term Loans	575,870	---
Mortgage Proceeds	30,437	314,138
Reduction of Other Assets	15,649	1,641
Issue of Common Stock	--	421,075
Sale of Fixed Assets	16,113	---
	<u>1,084,791</u>	<u>1,133,076</u>

APPLICATION OF FUNDS:

Fixed Asset Additions	553,694	737,764
Payment of Dividends	47,574	47,203
Mortgage Payments	19,507	279,820
Deferred Expenses	13,114	---
	<u>633,889</u>	<u>1,064,787</u>
Increase in Working Capital	450,902	68,289
Working Capital January 1	1,192,151	1,554,924
	<u>1,643,053</u>	<u>1,623,213</u>

Note: *Restated. See footnote on Profit & Loss Statement.